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PEOPLE WITH FARM EARNINGS . . .

Sources and Distribution of Income



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ABSTRACT

During 1963-69, growth in wages and salaries and other off-farm income improved average income levels of people with farm earnings and probably brought about more equal income distribution. Nevertheless, many of these people continued to report low incomes. More traditional farm programs may remain necessary in rural areas where the potential for growth in off-farm jobs is minimal. Neither present programs nor expanded off-farm opportunities offer a solution to income problems of the aged. Programs that expand earnings for people while they are working are needed to help prevent future income problems.

Key Words: People with farm income, off-farm income, income distribution, Gini ratio, Federal tax data, regions.

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SUMMARY

Many of the 3 million people with some income from farming in 1969 also had off-farm income, especially wages and salaries. Though farm people have historically benefited from temporary or seasonal part-time jobs, farm earnings often have become secondary. Along with outmigration, growth in off-farm income ranks as a major change in the farm sector.

During 1963-69, wages and other off-farm income not only improved the average income level of people with farm earnings but also probably made income distribution more equal. People benefiting the most from wage incomes were often those with low incomes from all sources.

Present programs have not effectively eliminated income problems for all persons with farm earnings. For example, a particularly large percentage of people with farm earnings in the Appalachian, Southeast, and Delta regions continue to report low incomes. However, because the Corn Belt accounts for such a large proportion of people with farm income, more people reported low income from that region in 1966 than from any other.

For many people on small farms--especially in rural areas with growth potential in the nonfarm sector--wages and salaries seem to hold considerable promise for future increases in incomes. There have been no major policies with the specific aim of increasing opportunities for off-farm work in these areas. However, by adding to their income through wage earnings, many farm people have shown their willingness to participate more fully in the off-farm job market. Over the long run, adjustments which bring these people into off-farm jobs allow greater population dispersion and less concentration in urban centers.

Rural areas that offer little potential for growth in off-farm jobs may need the more traditional farm programs. These areas probably will maintain a capacity to overproduce, and adjustment will continue to come largely through outmigration.

Older people generally report low earnings and a higher proportion have income problems. Neither present farm programs nor expanded off-farm opportunities offer a real solution. However, providing better earnings for people now working may help them avoid income problems in the future.

PEOPLE WITH FARM EARNINGS. . .SOURCES AND DISTRIBUTION OF INCOME

by

Edward L. Reinsel

INTRODUCTION

In general, the level of living is set by aggregate income. But distribution of this income may mean the difference between poverty and an acceptable living level for various segments of society, such as people with farm earnings. Further, knowledge of income and its distribution is essential for policy decisions on important equity questions; for example, what persons are to benefit from production, or from Government actions which transfer income from one group to another.

Studies of efficient farm organization and operation were once emphasized because efficiency was believed to insure the adequacy of farm incomes. However, this approach neglected the price-depressing effects of excess production; thus, few economists now accept efficiency as the primary method of solving income problems of farmpeople.

Farm commodity programs which restrict supply and increase prices have often been justified as measures to increase farm incomes. But after several decades of such programs, farm income problems remain. People with few resources receive limited benefits. Thus, the effectiveness of farm commodity programs is restricted, though they may benefit the agricultural sector by increasing prices and stabilizing markets.

To improve their economic situation, farmpeople have turned increasingly to wage and salary work and other off-farm income sources. As a result, off-farm income greatly affects well-being of these people. At the same time, the picture has become increasingly complicated because people with farm income control different kinds and amounts of resources. Some of these people rely mainly on farming, but others receive large off-farm incomes. Many live on farms they operate; others, including some farm operators, live in rural towns and urban centers. Some may be retired farmers, farm-reared people with a remote business interest in farming, or nonfarm people who have invested in farmland.

A complete measure of the financial status of people involved in farming would include income and losses from both farm and off-farm sources. Other items--income transfer payments, income in kind, gifts, inheritances, and asset accumulation and disposal--also would need to be considered. Data for several years would be useful, since data for one year would not show differences between people with temporarily low incomes and those with chronic income problems.

Determining these differences is significant because relatively permanent and dependable income does not affect a person's well-being the same way as temporary or highly variable income.

The type of information discussed above can be valuable in developing programs to improve incomes of farmpeople and can help ensure that income transfer programs directed at the farming sector will be effective.

A major problem in interpreting and using income studies for policymaking is in determining what represents reasonable or equitable income distribution. For example, when Government policies and programs change the income distribution, there is no way to compare gains and losses in utility or well-being of the people involved. Government actions that affect income are usually based on underlying goals of society. Decisions are political as well as economic.

Income transfers are most easily justified where the economic well-being of identifiable groups--such as children, the aged, the infirm, and others with special disadvantages--is below acceptable standards. Another reason for overt or tacit income transfers is the belief that they improve the general welfare of society.

Objectives

The purpose of this report is to describe, by region, the sources, level, and distribution of farm and off-farm income of people with farm earnings. Also discussed are income distribution by source and the probable effect of such income on the total income distribution of people with farm earnings.

Sources and Limitations of Data

Farm income estimates used in this report are based on data from Federal income tax returns, whereas those by the Economic and Statistical Analysis Division, Economic Research Service (ERS), U.S. Department of Agriculture (USDA), are based on data from Bureau of the Census, U.S. Department of Commerce; Statistical Reporting Service; and other public and private sources.^{1/} Not only do the estimates come from separate sources, but the definitions used for tax purposes often differ. No attempt was made to reconcile differences.

Farm operators, landlords, and others report farm income for tax purposes. Persons with farm wages or income from partnership, corporation, and institutional farms were not included in this report unless they also reported as sole proprietors. Four-fifths of all farm returns are filed jointly by husbands and

^{1/} This report is mainly based on special tabulations from the proprietorship tax model for 1966. The model is a stratified sample of about 45,000 farm tax returns and was developed by the Statistics Division, Internal Revenue Service, U.S. Department of the Treasury. The author did not have direct access to tax returns of persons or businesses. Design and limitations of the sample are discussed in (12, pp. 257-259); also see (4). For additional information on the USDA income series, see (6). Underscored numbers in parentheses refer to items in References.

wives. Other returns usually represent the income of single persons or of the only spouse with income. Both farm and off-farm income are reported. ^{2/} Off-farm income includes wages and salaries, dividends, interest, income from non-farm businesses, rents, royalties, pensions and annuities, and income from miscellaneous sources. Not reported are social security benefits, welfare, and other transfer payments; interest on nontaxable State and local bonds; and value of home-consumed farm products. The report does not consider measures of wealth, except as these are reflected in the taxable share of capital gains and in dividends and interest received.

Farm receipts on proprietorship tax returns include sales of market livestock, livestock products, and crops. Receipts also include Federal agricultural program payments, patronage dividends of cooperatives, income tax refunds, Federal gasoline tax refunds, and ordinary gain or loss on sales of farm real estate and personal property. Sales of livestock held 12 months or longer for draft, breeding, or dairy purposes are not counted as farm receipts, but are treated as sales of capital assets.

Farm profit or loss on individual income tax returns is the difference between farm receipts and farm business deductions. Business deductions include hired labor, materials, State and local taxes, and depreciation. Some land development costs, such as the cost of land clearing, are also treated as deductible expenses. Individual proprietors cannot deduct their own wages.

A rather serious limitation in using Federal income tax data for studies of economic well-being is that returns are often not filed by persons receiving less than the taxable minimum. ^{3/} The resulting income distribution is biased upward. Another limitation is that true returns from farming may be understated--especially when farm losses are combined with much off-farm income. Because sizable farm losses are most often reported by persons with larger combined incomes, data are probably distorted most at upper income levels.

The total number of farms is about the same as the total number of farm tax returns, but operators and other persons who file farm tax returns are not identical populations. Most farm operators (including tenants) file a return, but some do not, mainly because, as mentioned, their incomes fall below the taxable minimum. For some farms, there are two or more tax returns because landlords or informal partners share the income. On low-income farms, sharing income under landlord-tenant arrangements increases the probability that no one will receive sufficient taxable income to file a return.

Although tax returns are tabulated in the districts where they are filed, these may not always be with districts in which the incomes were earned. Such differences could have a minor effect on regional income estimates.

^{2/} Combined farm and off-farm income is referred to as "adjusted gross income" by the Internal Revenue Service.

^{3/} Until 1970, the minimum was \$600 and for persons 65 and older, \$1,200. In 1970, these amounts were raised but data in this report are not affected.

Taxpayers must also file a return and pay taxes for social security if their net earnings from self-employment were \$400 or more.

Use of Gini Ratio

The Gini ratio is used here as a relative measure of income distribution. It provides a single figure summary of a distribution of persons and income by income size classes. Possible values of the ratio range from zero to 1. A Gini ratio near zero means that income is nearly equally distributed; a value near 1 suggests that most of the income is received by a few people. ^{4/}

The Gini ratio is computed from a Lorenz curve. The curve is obtained by plotting the cumulative percentage of persons on the horizontal axis against the cumulative percentage of income received by these persons on the vertical axis (fig.). The diagonal line in the figure represents the Lorenz curve if income is equally distributed. Usually, Lorenz curves fall below the line of equal distribution. The ratio of the area between the diagonal and the Lorenz curve to the total area under the diagonal is the Gini ratio-- $\frac{A}{A+B}$.

Gini ratios in this report were computed from three types of distributions. It is important to distinguish among these distributions because the resulting Gini ratios are not comparable.

In the first instance, people and their total income from combined farm and off-farm sources were distributed by total income size classes (for example, table 3).

The second type of distribution, illustrated in table 6, is much like the first except that people and their income from only one source, such as dividends or wages and salaries, were distributed--again by the amount of total combined farm and off-farm income. Gini ratios computed from this type of distribution helped estimate the effect of various income sources on the overall distribution of income.

The third type of distribution differs greatly from the first two. People and income were distributed by amount of income from a selected source rather than by amount of total income as in the first two types of distributions. For example, the distribution in table 9 was by amount of wage and salary earnings. People with little income from one source often have substantial income from another. Thus, a Gini ratio is typically larger when based on a distribution by amount from a single source than when based on a distribution that includes income from several or all sources combined.

FARM INCOME--A SMALL PART OF TOTAL U.S. PERSONAL INCOME

U.S. Department of Commerce estimates show that only 2.6 percent of total U.S. personal income was directly attributable to farming in 1969--down from 3.4 percent in 1963 (table 1). In 1969, farm income ranged from 0.7 percent of total personal income in the Northeast to 11.6 percent in the Northern Plains.

^{4/} A method for computing the Gini ratio is given in (8). See also (1, pp. 444-447).

COMPUTATION OF THE GINI RATIO

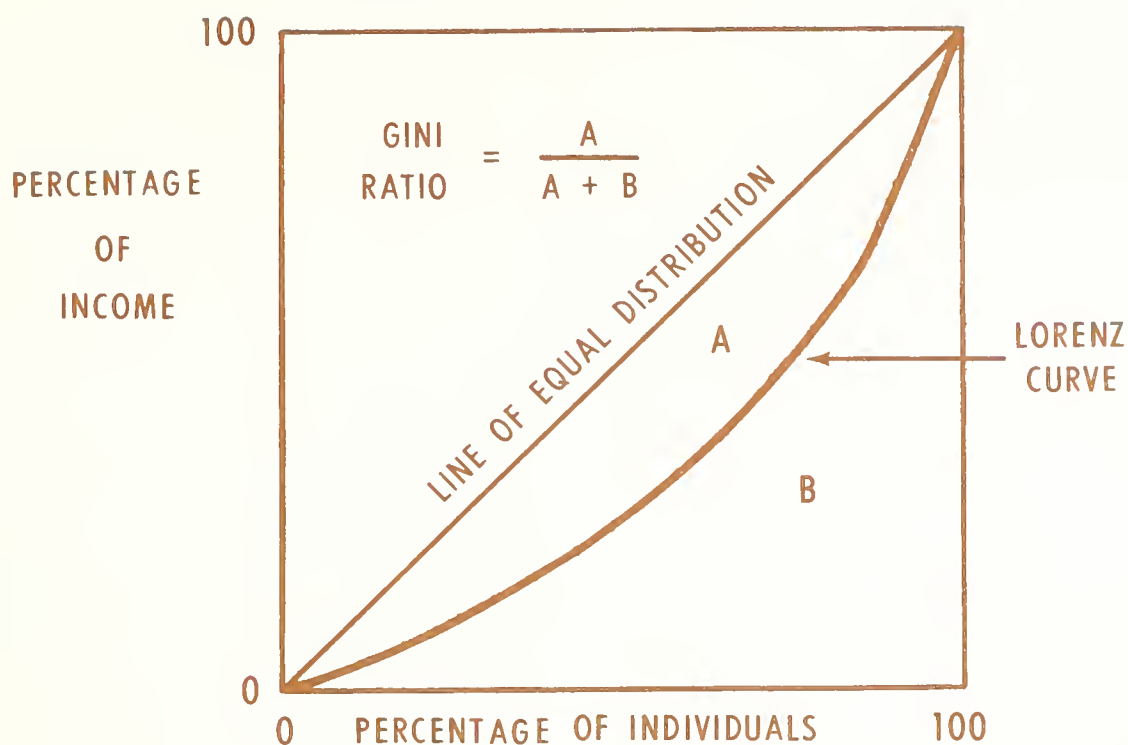


Table 1.--Personal income from farming, 1963, 1966, and 1969, and taxpayers with farm income as major income source, by region, 1966

Region	Personal income from farming : as percentage of all income ^{1/} :			Taxpayers with farm income in 1966 ^{2/} :		
	1963	1966	1969	Number	As per- centage of all tax- payers	With farm income as major in- come source ^{3/}
	Percent	Percent	Percent	Thousands	Percent	Percent
Northeast-----	0.8	0.8	0.7	198	1	33
Lake States-----	3.4	3.4	2.5	350	6	44
Corn Belt-----	3.8	3.8	2.8	759	6	45
Northern Plains----	12.7	13.9	11.6	306	17	57
Appalachian-----	5.1	4.1	3.5	426	7	38
Southeast-----	4.9	4.0	3.5	200	4	30
Delta-----	9.6	7.7	8.1	145	6	32
Southern Plains----	5.3	5.0	3.8	307	7	30
Mountain-----	5.9	5.6	5.0	146	6	39
Pacific-----	2.8	2.8	2.3	166	2	26
All-----	3.4	3.2	2.6	3,003	4	40

^{1/} Based on (9). Personal income is defined as current income received by persons from all sources, including transfer payments. It is measured before taxes, except for individual contributions to social security.

^{2/} Based on (11, p. 156).

^{3/} Taxpayers reporting farm losses accounted for more than half of persons with farm income who had a nonfarm major income source.

Declines in the percentage of income from farming occurred in all 10 ERS production regions in the 48 States between 1963 and 1969 (9). 5/

Among the 3 million persons reporting some farm earnings for tax purposes in 1966, farming was the major source of income for only 1.2 million. About 25 percent of the 3 million were in the Corn Belt States, but they accounted for only 6 percent of all individual tax returns from that region. Less than 3 percent of Federal tax returns from Corn Belt States showed farming as the major source of income.

Among the regions, the Northern Plains clearly depends the most on farming. Yet fewer than 20 percent of its taxpayers reported farm earnings in 1966, and over 40 percent of these had more income from another source. Least dependent on farming were people in the Northeast and Pacific regions. Less than 2 percent in each region reported farm earnings in 1966; of these, about one-third listed farming as the major income source. Also, relatively few people in the Southeast, Delta, and Southern Plains regions reported farming as the major source of income. Farm earnings reported by many persons in these five regions were low. Thus, the off-farm income reported often easily exceeded the earnings from farming.

IMPROVEMENT IN INCOME LEVELS

For persons reporting some farm earnings, combined farm and off-farm income went from an average of \$4,650 in 1963 to \$6,460 in 1966 (table 2). The increase reflects not only an improvement in farm earnings, but also a sharp rise in off-farm income. 6/

The total number of persons with farm earnings declined during 1963-66, because fewer people reported either farm profits of less than \$5,000 or farm losses of less than \$1,200. However, the number with profits of \$5,000 or more rose 70 percent and the number with losses of \$5,000 or more remained essentially unchanged. Persons reporting profits of \$1,200 or more generally had higher average farm receipts during the period. Overall, receipts on profit returns averaged \$3,200 more in 1966 than in 1963. Persons reporting losses increased their receipts by an average of only slightly more than \$100.

5/ Regions:

Northeast--Maine, N. H., Vt., Mass., R. I., Conn., N. Y., N. J., Pa., Del., Md.
Lake States--Mich., Wis., Minn.

Corn Belt--Ohio, Ind., Ill., Iowa, Mo.

Northern Plains--N. Dak., S. Dak., Nebr., Kans.

Appalachian--Va., W. Va., N. C., Ky., Tenn.

Southeast--S. C., Ga., Fla., Ala.

Delta--Miss., Ark., La.

Southern Plains--Okla., Tex.

Mountain--Mont., Idaho, Wyo., Colo., N. Mex., Ariz., Utah, Nev.

Pacific--Wash., Oreg., Calif.

6/ That 1966 was a year of relatively high income for people involved in farming is confirmed in (5).

Table 2.--Persons reporting farm income, average farm receipts, and average combined income, by amount of farm profits or losses, 1963 and 1966.

Farm profits or losses	Persons reporting 1/		Average farm receipts		Average combined farm and off-farm income 2/	
	1963 3/	1966 4/	1963 3/	1966 4/	1963 3/	1966 4/
	-----Thousands-----		-----Dollars-----			
Farm profits:						
\$10,000 or more-----	50	103	60,450	63,310	20,120	19,350
5,000-9,999-----	167	267	26,660	27,060	8,500	9,140
3,000-4,999-----	}854	276	}11,820	17,060	4,170	6,150
1,200-2,999-----		514		10,580	2,790	4,600
400-1,199-----	584	471	5,100	4,950	3,180	4,070
Less than 400-----	448	383	3,120	3,240	3,970	4,650
Farm losses:						
Less than \$400-----	337	312	2,800	2,780	4,160	6,000
400-1,199-----	381	344	3,390	3,520	4,540	6,430
1,200-2,999-----	}310	241	}6,540	5,580	4,700	6,960
3,000-4,999-----		65		9,710	5,140	8,680
5,000-9,999-----	40	41	16,190	16,190	7,720	11,840
10,000 or more-----	26	26	55,220	53,590	21,700	25,860
All farm profits-----	2,103	2,014	10,440	13,640	4,340	6,050
All farm losses-----	1,094	1,029	5,790	5,910	5,250	7,260
All farm profits and losses-----	3,197	3,043	8,850	11,030	4,650	6,460

1/ Including persons with losses from combined farm and off-farm sources.

2/ Including losses from combined farm and off-farm sources.

3/ Based on (13, tables 10 and 11, pp. 80-81).

4/ Based on special tabulations by Internal Revenue Service, U.S. Department of the Treasury.

In general, people with farm earnings had greater income during 1963-66. But in 1966, one-fourth continued to report low incomes of less than \$2,500 from combined farm and off-farm sources; half reported less than \$5,000. Nearly one-third reported \$5,000 to \$9,999, and one-sixth listed relatively high incomes--\$10,000 or more (table 3). 7/

REGIONAL INCOME DIFFERENCES IN 1966

Generally, economists have had only nationwide income distributions for persons involved in farming. Nevertheless, enough has been learned to suggest that incomes and their distribution vary significantly among regions--a view confirmed in this report. For example, people in the Appalachian region had the lowest combined farm and off-farm incomes in 1966--\$5,270; people in the Pacific region had the highest--\$10,580 (table 3). Compared with other regions, the Corn Belt had far more people with farm earnings and with combined farm and off-farm incomes of less than \$2,500. However, the percentages were relatively small compared with all but one other region.

In the Lake States and Northern Plains, combined incomes averaged low because few people had high incomes, not because unusually large numbers had low incomes. Dairying, an important type of farming in the Lake States, tends to produce a smaller range in incomes and thus a more equal income distribution than do many other types of farming. Besides having low average incomes, people in the Northern Plains States have more limited possibilities for off-farm income and greater equality in income distribution than in most other regions.

Combined income averaged about the same for the group with farm profits and the group with farm losses in the Northern Plains and Pacific regions. Elsewhere, income averaged higher on returns with farm losses. The difference in average income of people reporting profits and losses was about \$6,400 in the Northeast, exceeding that in all other regions.

Incomes were generally more equally distributed among persons with farm profits than among those with farm losses (table 4). And as expected, deleting persons reporting losses from the population being studied generally resulted in a more equal income distribution. However, inequality in income distribution increased slightly in the Southeast and Delta and remained essentially unchanged in the Appalachian region (tables 3 and 4). Such relative stability may have occurred because the low-income people in these three regions are fairly homogeneous; typically, they list farm profits and have limited off-farm income.

In general, regions differed little in equality of income distribution for people with farm losses--except in the Northeast, where the distribution was the most unequal. When people with losses in the Northeast were omitted, inequality fell to fifth highest among the regions. Thus, people with farm losses mainly accounted for unequal incomes in the Northeast. Often, these people reported substantial off-farm income.

Percentage distributions of income were similar in the Southeast and Delta regions. Incomes did average \$800 higher in the Southeast because greater off-

7/ Though incomes reported for tax purposes averaged slightly higher than those for farm families in 1966, the distributions were similar (7).

Table 3.--Persons reporting farm income: Distribution by amount of combined farm and off-farm income and region, 1966 ^{1/}

Region	Number ^{2/}	Persons with combined income of--						Mean	Gini ratio
		Less than \$2,500	\$2,500-\$4,999	\$5,000-\$9,999	\$10,000-\$24,999	\$25,000-\$49,999	\$50,000 or more		
Thousands	24.5	23.4	33.8	14.5	2.3	1.5	Dollars	0.557	
Northeast	193							8,920	
Lake States	340	26.2	28.0	34.8	10.0	.8	.2	5,760	.403
Corn Belt	729	22.6	23.4	35.2	16.8	1.5	.5	7,080	.428
Northern Plains	294	24.7	30.3	31.8	12.1	.9	.2	5,820	.403
Appalachian	420	38.0	26.6	26.1	7.7	1.1	.5	5,270	.495
Southeast	192	30.2	22.7	30.1	14.0	2.1	.9	7,010	.510
Delta	142	33.7	25.5	26.1	12.0	2.1	.6	6,210	.509
Southern Plains	301	23.5	22.2	33.3	17.3	2.8	.9	7,890	.483
Mountain	143	24.3	25.3	33.5	14.5	1.9	.5	6,770	.451
Pacific	165	13.6	17.5	36.3	26.8	4.2	1.6	10,580	.460
All	2,919	26.3	24.8	32.4	14.2	1.7	.6	6,880	.471

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

^{2/} Excluding 119,000 persons reporting losses from combined farm and off-farm sources and 5,000 persons from areas not included in these 10 regions.

Table 4.--Persons reporting farm profits: Distribution by amount of combined farm and off-farm income and by region, 1966 ^{1/}

Region	Number 2/	Persons with combined income of--							Mean	:Gini ratio
		: Less than : \$2,500 :	: \$2,500- : \$4,999 :	: \$5,000- : \$9,999 :	: \$10,000- : \$24,999 :	: \$25,000- : \$49,999 :	: \$50,000 : or more :			
	Thousands	-----Percent-----							Dollars	
Northeast	119	27.9	25.4	31.8	13.0	1.4	0.5		6,470	0.458
Lake States	248	27.5	28.6	34.2	9.0	.6	.1		5,380	.378
Corn Belt	551	23.7	24.5	33.3	17.0	1.2	.3		6,690	.414
Northern Plains	243	23.8	30.9	31.6	12.7	.9	.1		5,820	.394
Appalachian	302	45.5	26.9	21.0	5.7	.7	.2		4,200	.472
Southeast	115	41.4	23.0	22.9	10.7	1.5	.5		5,460	.516
Delta	85	40.6	25.3	20.2	11.5	2.0	.4		5,570	.529
Southern Plains	168	26.4	24.2	29.9	16.4	2.6	.5		6,990	.470
Mountain	94	23.8	27.8	31.7	14.6	1.8	.3		6,480	.435
Pacific	84	12.5	16.8	35.6	29.2	4.6	1.3		10,450	.425
All	2,009	29.2	25.9	29.9	13.3	1.4	.3		6,090	.449

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

^{2/} Excluding 4,000 persons with farm profits and with losses from combined farm and off-farm sources.

Table 5.--Persons reporting farm income: Distribution by amount of combined farm and off-farm income and farm profits or losses, 1966 ^{1/}

Farm profits or losses	Number	Persons with combined income of--									
		Less than \$2,500	\$2,500-\$4,999	\$4,999-\$9,999	\$9,999-\$24,999	\$24,999-\$49,999	\$49,999-\$25,000-	\$25,000-\$50,000	\$50,000-	\$50,000-	\$50,000-
		Loss									
	Thousands		2/	2/	2/	2/	2/	2/	2/	2/	2/
Farm profits of--											
\$10,000 or more	103	0.2									
5,000-9,999	267	.3	0.2	0.9	1.2	82.7	13.4	2.5			
3,000-4,999	276	.2	.7	52.3	75.2	22.1	1.0	.3			
1,200-2,999	514	.2	33.2	39.9	38.3	7.7	.6	.2			
400-1,199	471	.3	53.5	18.3	19.2	6.6	.7	.2			
Less than 400	383	.2	42.1	21.7	19.8	7.3	.6	.2			
					26.4	8.7	.7	.2			
Farm losses of--											
Less than \$400	312	6.6	21.2	21.1	36.9	12.8	1.1	.3			
400-1,199	344	9.1	17.8	20.9	35.9	14.5	1.4	.4			
1,200-2,999	241	12.1	15.8	19.5	34.6	14.7	2.5	.8			
3,000-4,999	65	21.7	12.7	15.9	25.6	16.9	4.7	2.5			
5,000-9,999	41	29.7	13.4	12.0	15.4	15.6	8.7	5.2			
10,000 or more	26	44.2	3.9	6.3	5.5	14.4	10.5	15.2			
All farm profits	2,014	.3	29.1	25.9	29.8	13.3	1.3	.3			
All farm losses	1,029	11.5	17.5	19.6	33.7	14.2	2.3	1.2			
Combined farm and off-farm income	3,043	4.1	25.2	23.8	31.1	13.6	1.7	.5			

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

^{2/} Less than 0.05 percent.

farm earnings were reported with farm losses (table 3). When losses were omitted, incomes averaged about \$100 more in the Delta than in the Southeast (table 4). When only persons with profits were considered, incomes were relatively unevenly distributed in both regions.

In the Southeast and Delta, and in the Appalachian region, where a larger percentage had low incomes, more than two-fifths of persons with farm profits reported combined income of less than \$2,500. What set the Appalachian region apart was a lower average income and a smaller percentage of persons reporting at high-income levels. Low and high incomes seemed to coexist more often in the Southeast and Delta regions than in the Appalachian region.

Regional differences in income suggest that Government policies to reduce income problems probably will be more successful if regional characteristics and special problems are considered. For example, in the Southeast and Delta, policies may need to be aimed especially at low-income groups. In the Northern Plains, widespread low incomes suggest that a commodity approach might be valid. Resolution of income problems of older people would help to solve income problems in some regions. In others, improvement will depend mainly on increasing numbers and availability of off-farm jobs.

RELATIONSHIP BETWEEN FARM AND OFF-FARM INCOME

In much of this report, the emphasis is on combined farm and off-farm income, the relationship of which is important in understanding the farm economy.

In 1966, about two-thirds of the people with farm business receipts reported farm profits and one-third reported losses. These losses, however, often offset only part of the off-farm income received. Persons with losses averaged about \$1,200 more from combined sources than did those with profits (table 2).

In general, persons reporting small farm profits had lower incomes from combined farm and off-farm sources than did those with larger profits (table 5). For example, fewer than 10 percent of people with profits of less than \$5,000 reported a combined income of \$10,000 or more. In contrast, nearly all who reported profits of \$10,000 or more also had a combined income of \$10,000 or more, and 16 percent had \$25,000 or more.

Often, people with small farm losses also had low combined farm and off-farm income. Only about 14 percent with losses of less than \$400 reported combined income of \$10,000 or more. As the size of losses increased, two tendencies became evident. First, the percentage of people with losses from combined sources increased. Fewer than 7 percent of taxpayers with farm losses of less than \$400 reported losses from combined farm and off-farm sources. However, 44 percent of those reporting farm losses of \$10,000 or more listed losses from combined sources.

Second, as farm losses increased, combined incomes rose. For example, 40 percent of persons reporting farm losses of \$10,000 or more had a combined income of \$10,000 or more--after deducting farm losses. Many of these people are evidently affluent and rely relatively little on farm income.

The effect of farm income on the equality of distribution of combined income is difficult to measure. When the distribution was by income class, farm profits not only appeared to be distributed more evenly than combined income of all persons but also more evenly than combined income of persons reporting profits (tables 4 and 6). As one would expect, farm profits tend to make incomes more equal and farm losses probably result in less equality. ^{8/} Because combined income in some classes became negative when farm losses were subtracted, no attempt was made to determine the total effect of farm profits and losses on combined income.

OFF-FARM INCOME AND ITS EFFECT ON INCOME

In 1966, persons with farm income reported \$13.8 billion from off-farm sources and about \$1.7 billion in farm and nonfarm capital gains. Off-farm earnings accounted for a large share of income at low-income levels. However, the proportion reporting income from off-farm sources was higher among people with large total incomes. When combined farm and off-farm income was \$10,000 or more, investment and business earnings seemed to replace wages and salaries as sources of income (tables 7 and 8). Nevertheless, persons with large total earnings who reported wages or salaries averaged more from this source than did those with less income. Dividends increased sharply above the \$10,000 income level. When combined income was \$25,000 or more, nonfarm business and partnership income were especially important.

Growth in off-farm income represents a major change in the farm economy. Though farmpeople have long used off-farm work to supplement farm earnings, increased mechanization of farms, better transportation to off-farm jobs, and improved off-farm opportunities have made great changes.

Wages and Salaries

Wages and salaries reported on 1966 farm returns totaled \$9.2 billion and accounted for two-thirds of off-farm income. Some wage income, however, is accounted for by earnings of people with a rather marginal interest in farming, and by pay received by farm wives. Such income was important at all levels of farm earnings, in all regions, and for persons reporting either farm profits or losses.

Wage and salary earnings seem to be increasing sharply. The number of persons reporting farm earnings declined 5 percent during 1963-66. But the number with wage and salary earnings rose from about 50 percent in 1963 to 56 percent in 1966 (table 9).

The amounts of income also rose. In 1963, about 64 percent of people reporting wages and salaries earned less than \$5,000 from such sources, but by 1966, the proportion had declined to about 54 percent. In contrast, the percentage with wages and salaries of \$10,000 or more increased from 7 to nearly 13 percent. Average wage earnings went from less than \$4,300 in 1962 ^{9/} to over

^{8/} The Gini ratio for farm losses was smaller than that for income. A low Gini ratio for losses suggests an effect on income distribution similar to that implied by a high Gini ratio for income.

^{9/} 1962 was the only year for which comparable data were available.

Table 6.--Persons reporting income from selected sources: Distribution by amount of combined farm and off-farm income, 1966 1/

Income source	Persons with combined income of--							Gini ratio 2/	Average combined income 3/
	Less than \$2,500	\$2,500-\$4,999	\$5,000-\$9,999	\$10,000-\$24,999	\$25,000-\$49,999	\$50,000 or more			
	Loss								
-----Percent-----									
Dollars									
Farm business:									
Profits-----	0.3	29.1	25.9	29.8	13.3	1.3	0.3	0.381	6,090
Losses-----	11.5	17.5	19.6	33.7	14.2	2.3	1.2	4/.196	8,620
Wages and salaries-----	1.8	13.8	24.8	40.9	16.5	1.5	.7	.318	7,780
Dividends-----	4.3	11.1	15.5	27.4	28.7	8.5	4.5	.759	16,290
Interest-----	2.8	19.2	20.0	33.2	20.4	3.1	1.3	.296	9,050
Nonfarm business:									
Profits-----	2.1	18.7	23.5	29.5	19.3	5.2	1.7	.526	9,670
Losses-----	13.4	20.0	17.6	28.1	15.8	3.1	2.0	4/.378	11,560
Profits and losses-----	4.4	19.0	22.3	29.2	18.6	4.8	1.7	.546	10,016
Partnership:									
Profits-----	2.9	9.7	13.3	27.0	30.7	10.9	5.5	.498	17,540
Losses-----	9.2	10.0	12.0	27.4	23.6	9.9	7.9	4/.481	23,900
Profits and losses-----	4.3	9.8	13.0	27.1	29.1	10.6	6.1	.493	18,912
Capital transactions:									
Gains-----	3.7	17.6	23.9	33.2	17.4	2.9	1.3	.473	8,900
Losses-----	5.6	14.2	17.9	31.0	21.8	6.6	2.9	4/.126	5/
Gains and losses-----	3.9	17.3	23.4	33.0	17.8	3.2	1.4	.471	5/
Other:									
Profits-----	3.6	20.2	22.4	32.9	17.7	2.3	.9	.340	8,100
Losses-----	3.7	19.8	22.4	34.7	15.8	2.5	1.1	4/.380	8,400
Profits and losses-----	3.6	20.1	22.4	33.4	17.2	2.4	.9	.331	8,190
All-----	3.9	25.2	23.8	31.1	13.6	1.7	.6	.471	6,880

1/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

2/ Computed from the distribution of income from the listed source, by income of persons reporting income from combined sources.

3/ Does not include persons with losses from all sources.

4/ Gini ratio is for losses and persons distributed by amount of combined farm and off-farm income. A Gini ratio less than 0.471 (ratio for combined farm and off-farm income) suggests that these losses tend to increase income inequality; a ratio greater than 0.471 suggests that the losses reduce inequality.

5/ Not available.

Table 7.--Persons with farm income reporting off-farm income from specified sources: Distribution by source and amount of combined farm and off-farm income, 1966 1/

Persons reporting off-farm income from--												
Combined farm and off-farm income	Number	Wages	Divi-	Inter-	Nonfarm	Partnership	Capital	Other				
		and	dends	est	business				Profit	Losses	Profit	Losses
		sal- aries			Profits	Losses	Profits	Losses	Gains	Losses	Profit	Losses
Percent												
Loss	Thous.	25	12	34	5	8	2	2	32	5	43	17
Less than \$2,500	767	31	5	36	7	2	1	2/	24	2	37	14
2,500-4,999	723	58	7	39	9	2	2	1	34	2	44	17
5,000-9,999	946	73	10	50	9	2	3	1	36	3	49	20
10,000-24,999	414	68	23	70	13	3	8	2	44	5	60	21
25,000-49,999	50	51	56	86	29	4	22	6	59	13	64	27
50,000 or more	19	61	79	92	25	8	29	12	70	15	66	31
All	3,038	56	11	47	9	2	3	1	34	3	46	18

1/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service for 48 States.

2/ Less than 0.5 percent.

Table 8.--Average off-farm income or losses of persons with farm income: Distribution by source and amount of combined farm and off-farm income, 1966 ^{1/}

Combined farm and off-farm income	Average off-farm income or losses from--										
	Wages and sal- aries	Divi- dends	Inter- est	Nonfarm business	Partnership	Capital	Other	Profits	Losses	Gains	Losses
				Profits	Losses	Profits	Losses				
Loss-----	2,180	2,190	640	2,550	8,080	1,750	9,780	2,540	600	870	4,740
Dollars-----											
Less than \$2,500-----	1,340	290	350	1,140	1,050	1,540	880	730	400	410	250
2,500-4,999-----	2,980	470	490	2,080	1,760	1,870	1,400	810	370	440	180
5,000-9,999-----	5,800	500	440	3,380	1,260	3,470	1,020	900	450	480	180
10,000-24,999-----	9,560	1,280	820	8,310	1,820	6,620	1,614	1,980	590	910	500
25,000-49,999-----	16,180	4,100	2,230	24,060	5,750	17,470	3,870	5,260	730	3,330	1,900
50,000 and over-----	36,690	38,630	5,930	49,200	27,800	39,160	12,770	3,750	840	11,250	5,800
All-----	5,410	2,810	640	5,450	2,990	7,460	3,210	1,700	500	712	520

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

\$5,400 in 1966--better than a 26-percent increase (table 10). These trends probably continued after 1966. The gain in wage and salary income can be partly explained by overall growth in the economy that resulted in a strong demand for workers in rural as well as urban areas. However, wages and salaries may have increased less for persons involved in farming than for the population as a whole. Also, dollar wage increases have been partly offset by higher prices.

Persons with farm income reporting wages and salaries were less likely to list farm profits than were those without wage and salary income. About 66 percent of all taxpayers with farm receipts reported profits. Of the group with wage and salary earnings, only 55 percent listed profits. The larger the wage and salary income, the less likely that profits were reported. For example, among persons earning \$10,000 or more in wages, 28 percent reported farm profits; among those with less than \$250 in wages, 82 percent had profits.

A higher percentage of persons reported wages and salaries in 1966 than in 1962 and such earnings averaged larger in every region. The Southeast, long considered a low-income region, ranked third in average wage and salary income in both years; the percentage reporting such income exceeded the 1962 and 1966 national averages for persons with farm income. Also, in that region, average wage earnings increased 30 percent during the period.^{10/} Apparently, the rural Southeast has been experiencing rapid economic development, but many people with farm earnings in this region have been left behind. Also, persons with low income and little or no wage and salary earnings were often not included in the data, which biases average income upward.

The Lake States showed a relatively small percentage increase in the amount of wages and salaries earned. Favorable developments in the nonfarm economy, rather than slow expansion of off-farm job opportunities, could have been responsible. Persons with substantial wage earnings may have left farming while others with farm income began to earn small wages. If so, both groups could have been better off financially--though average wages declined in the region. However, this reasoning is hypothetical and further investigation is needed.

The percentage of people with farm income reporting wages and salaries was lower in the Northern Plains than in other regions. Further, 1966 wages in the region averaged \$3,630--only two-thirds of the U.S. average. Fully one-fifth of persons listing wages and salaries in the Northern Plains earned less than \$500 and nearly one-third, less than \$1,000 (tables 10 and 11). No other region had such small percentages of people with farm income reporting wages and salaries or listing wages of \$5,000 or more, suggesting that full-time wage work was scarce. However, the amount of such earnings in the Northern Plains seemed to be increasing at about the same rate as in other regions. People with farm income were apparently willing to accept off-farm jobs although earnings were

^{10/} Florida, included in the Southeast region, averaged larger incomes than other States and had the second most rapid growth rate in personal income in the country. Thus, these regional data may be somewhat optimistic for other Southeastern States. However, personal income data show that all but one State in the Southeast region had above average rates of growth during 1959-60 (2, p. 14).

Table 9.--Persons with wage and salary earnings: Distribution by amount of earnings and farm profits or losses, 1963 and 1966 1/

Item	Persons with wage and salary earnings	Persons earning wages or salaries of--				
		Less than \$2,000	\$2,000- \$4,999	\$5,000- \$9,999	\$10,000- \$24,999	\$25,000 or more
	Thou.	Percent				
1963: <u>1/</u>						
Farm profits-----	839	49.4	28.7	18.2	3.5	0.2
Farm losses-----	762	17.0	31.6	40.9	9.3	1.2
Total-----	1,601	34.9	30.0	29.0	6.3	.7
1966: <u>2/</u>						
Farm profits-----	938	42.8	26.0	24.7	6.1	.4
Farm losses-----	761	14.1	21.3	44.5	18.4	1.7
Total-----	1,699	29.9	23.9	33.6	11.6	1.0

1/ Based on (10, p. 50).

2/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

Table 10.--Persons with farm income reporting wages and salaries and change in average amount of such income, 1962 and 1966, by region

Region	Persons reporting in--		Average wage or salary income in--		Percentage change in average amount, 1962-66
	1962 <u>1/</u>	1966 <u>2/</u>	1962 <u>1/</u>	1966 <u>2/</u>	
	Percent	Percent	Dollars	Dollars	Percent
Northeast-----	53	57	5,180	6,540	26
Lake States-----	47	54	4,320	4,990	16
Corn Belt-----	46	52	4,270	5,450	28
Northern Plains-----	38	45	2,820	3,630	29
Appalachian-----	49	59	3,880	4,820	24
Southeast-----	55	61	4,820	6,290	30
Delta-----	52	61	4,120	5,120	24
Southern Plains-----	55	62	4,600	5,900	28
Mountain-----	55	61	3,860	4,750	23
Pacific-----	57	63	5,760	7,360	28
All-----	49	56	4,280	5,410	26

1/ Based on (14).

2/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

relatively low. Thus, additional people might take off-farm jobs if better opportunities become available.

Considerable inequality existed in the distribution of wages and salaries. This finding was expected because both persons with full-time off-farm work and persons with occasional or part-time off-farm employment were considered (table 11).

The Northern Plains also showed greater inequality in wage and salary distribution compared with other regions. Farm returns on the Northern Plains showing \$2,500 or more in wages and salaries represented half of farm returns reporting such income but accounted for nearly 90 percent of the wage and salary earnings reported. In the Southeast, relatively few persons earned low wages and salaries, which were apparently more evenly distributed than in other regions. The part-time job market in the Southeast may be more limited than elsewhere. Also, fewer people may have reported earnings from "odd jobs," or persons with such irregular employment may not have reported their low farm earnings. Relatively large numbers of farm operators in the Southeast are known not to report their income. Many of them may have had some wage earnings but so little total income that they were not required to report (4, pp. 3-6).

Despite considerable inequality in the distribution of wages and salaries, this income source appeared to have a leveling effect on the overall distribution of income. When all wages and salaries were distributed by amount of combined farm and off-farm income, the resulting Gini ratio was lower for wages and salaries than for combined farm and off-farm income (table 12).

Table 12.--Relative concentration of combined farm and off-farm income, wages and salaries, dividends, and interest, for all persons with farm income, 1966 1/

Item	Gini ratio for <u>2/</u> --			
	Combined farm and off-farm income	Wages and salaries	Dividends	Interest
Persons with--				
Wages and salaries---	0.398	0.318	----	----
Dividends-----	.563	----	.759	----
Interest-----	.485	----	----	.296
All persons with farm income-----	.471	.424	.882	.408

1/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

2/ Gini ratios computed by distributing combined income, wages and salaries, dividends, interest, and persons by amount of combined income.

For a more sensitive test, only people with farm earnings and wages and salaries were considered rather than all persons with farm income. Inequality of both combined income and wages and salaries decreased. Combined income was less equally distributed than wages and salaries--whether profits or losses were reported.

As shown in earlier studies, total income may be becoming more equally distributed for persons with farm income (8). ^{11/} Although data from farm tax returns are inadequate for similar conclusions, a modest trend toward more equal distribution of combined income is consistent with the significant increases in wage and salary earnings in recent years. Such earnings, which tend to be more evenly distributed than combined farm and off-farm income, have probably narrowed income disparity. Thus, people with low farm incomes have probably benefited the most.

Many people hold off-farm jobs while continuing to farm; thus, the farm-nonfarm job combination may not represent only a stage in movement out of farming. Whether this pattern of combining both types of work will transfer between generations raises special implications for long-term agricultural adjustment. Judging from their higher incomes, people able to find and accept off-farm employment gained in relation to those who continued to depend largely on farming.

Dividends

Dividends are an important income source for the relatively few affluent people with farm earnings. To some extent, dividends measure wealth that has arisen from substantial income or inheritance. Accordingly, people with the most income from combined sources had the largest dividends and reported dividends the most frequently.

In 1966, dividends of people with farm income totaled more than \$0.9 billion, but did not seem to be especially important until combined farm and off-farm income reached about \$10,000. Above that level, percentages reporting and amounts listed increased sharply.

Among persons reporting combined incomes of less than \$2,500, fewer than 5 percent had dividends, and these averaged only \$290 (tables 7 and 8). ^{12/} About 79 percent of the persons with combined income of \$50,000 or more reported dividends, averaging about \$38,600. The percentage with dividends did not seem to differ greatly between farm profit and loss groups, but average amounts reported were nearly fourfold greater for persons with losses. Especially large dividends were reported by persons with the largest farm losses. For example, the 44 percent who reported farm losses of \$10,000 or more also listed dividends, averaging \$31,500.

A significant difference between wages and salaries and dividends is that fewer people reported dividends than wages and salaries. Additionally, dividends averaged smaller than wage income (tables 7 and 8), but their concentra-

^{11/} Later data are available in (7).

^{12/} Patronage dividends of farmer cooperatives should be included on the farm return (Schedule F). However, some taxpayers may have listed patronage dividends incorrectly with dividend and interest income (Schedule B). Such errors would help account for some of the small dividends.

tion was greater (table 13). About 11 percent of persons with farm income received dividends in 1966. More than 75 percent of these people listed dividends of less than \$1,000; less than 7 percent reported \$5,000 or more. Dividends of less than \$1,000 accounted for only 6 percent of all dividends reported; those of \$5,000 or more represented over 80 percent of the total. Dividends of \$100,000 or more made up 60 percent of the total.

Part of the concentration of dividends was regional (table 14). For example, the Northeast accounted for only about 7 percent of all farm returns but about 29 percent of all reported dividends. These dividends averaged more than twice as large--\$7,390--as in any other region. In both the Northeast and Pacific regions, about 18 percent of the returns showed dividends, but average amounts in the Pacific region were only about two-fifths the size of those in the Northeast. In the Appalachian region, only 7 percent reported dividends, but average amounts exceeded those in all other regions except the Northeast. Dividends from the Northern Plains averaged only one-tenth as large as in the Northeast. 13/

Dividends increased more moderately during 1962-66 than wages and salaries. Little change occurred in the percentage reporting dividends and the average amount rose only 14 percent. The small change suggests that few additional affluent nonfarm people were gaining sole proprietorship interests in farming--though they may have become involved in farming in other ways. Also, the small number indicates that dividends have little effect on structural changes in agriculture.

As a highly concentrated income source, dividends clearly add to disparity in total income distribution of people with farm earnings (table 12). Also, total income was less equally divided for persons reporting dividends than for all persons reporting farm income.

Interest

Interest averaging \$640 was reported on nearly half the 1966 farm returns (tables 7 and 8). Interest, like dividends, totaled about \$0.9 billion and had the same tendency to rise in frequency and amount as total income increased. For example, among persons with total incomes of less than \$2,500, only about one-third reported interest averaging \$350. In contrast, among persons with total incomes of \$50,000 or more, over nine-tenths listed interest. However, average interest was \$5,930--less than one-sixth of average dividends of all persons at that income level.

The percentage of persons reporting interest increased from 29 percent in 1962 to 47 percent in 1966. Average interest listed, however, changed slightly, probably because people who had recently begun to report interest realized only small amounts.

13/ For additional detail on dividends by region, see app. table 1.

Table 13.--Persons reporting income from specified off-farm sources: Distribution by amount reported, and sources, 1966 1/

Source	Persons with off-farm income of--														Gini ratio
	Loss	Less than \$250	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	\$10,000-\$24,999	\$25,000 or more			
Wages and salaries-----	----	8.1	4.3	7.0	5.8	4.7	3.7	20.2	20.4	13.2	11.6	1.0	0.469		
Dividends-----	----	55.9	10.9	11.0	4.9	3.6	2.1	4.8	1.8	1.1	2.3	1.6	.896		
Interest-----	----	56.4	15.0	13.1	5.5	3.2	1.8	3.4	.9	.3	.3	.1	.710		
Nonfarm business-----	20.2	7.7	6.6	10.1	7.6	6.3	5.3	15.1	6.6	3.6	7.6	3.3	2/.663		
Partnership-----	22.7	10.1	5.7	8.8	5.5	5.2	4.2	11.1	7.4	3.8	10.5	5.0	2/.689		
Capital transactions---	8.6	31.1	17.1	17.5	8.6	4.2	2.5	5.9	1.7	.9	1.3	.6	2/.768		
Other-----	27.6	47.1	7.4	6.7	3.5	1.9	1.4	2.6	.9	.3	.6	3/	2/.820		

1/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.2/ Gini ratio computed for individuals reporting profits from indicated income source.3/ Less than 0.05 percent.

Table 14.--Persons with farm income reporting dividends, amounts reported, and change in average amount, by region, 1962 and 1966

Region	Persons reporting		Average		Percentage
	dividends in--		dividends in--		change in
	1962 <u>1/</u>	1966 <u>2/</u>	1962 <u>1/</u>	1966 <u>2/</u>	average
					amount, 1962-66
	Percent	Percent	Dollars	Dollars	Percent
Northeast-----	17	18	6,650	7,390	11
Lake States-----	8	10	1,270	1,510	12
Corn Belt-----	10	11	1,750	2,040	17
Northern Plains-----	8	12	670	740	10
Appalachian-----	7	7	2,610	3,290	26
Southeast-----	10	11	2,430	2,950	21
Delta-----	7	10	1,660	1,970	19
Southern Plains-----	9	10	2,310	3,020	31
Mountain-----	9	11	1,890	2,610	38
Pacific-----	15	18	2,860	3,050	7
All-----	10	11	2,470	2,810	14

1/ Based on (14).

2/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

The larger number of persons reporting interest in 1966 suggests that more people had savings than in earlier years. Because savings are often a residual after current needs have been met, such holdings would be expected to go up as incomes increased. This hypothesis agrees with the finding that wage and salary earnings and incomes were greater in 1966 than in 1963.

Interest, like most other income sources, appeared to be unequally distributed but such income probably lessened income disparity (table 13). When all persons reporting interest and the amount reported were distributed by income class, interest was more equally distributed than income (table 12). 14/

Nonfarm Businesses and Partnerships

One in 10 persons reporting farm earnings was involved in a nonfarm business in 1966--about the same percentage as in 1963. Average nonfarm business profits, less losses, increased from \$3,040 in 1963 to \$3,740 in 1966. About one-fifth of persons with farm earnings and nonfarm proprietorship receipts reported nonfarm business losses, averaging \$2,990 (tables 7 and 8). Some two-fifths had business net income of less than \$2,500 and the remaining two-fifths listed \$2,500 or more (table 13).

About 192,000 persons, or half the number with both farm and nonfarm businesses, reported greater gross business receipts from nonfarm businesses than from farming. Farm receipts averaged \$5,330. For persons with larger

14/ For regional data on interest, see app. table 2.

farm business receipts, the average was \$11,000. About 35 percent of persons engaged primarily in farming and more than 60 percent whose business receipts came mainly from nonfarm sources reported farm receipts of less than \$2,500.

Only half of all persons combining farm and nonfarm businesses reported farm profits in 1966. The greatest percentage with farm losses had the largest nonfarm business incomes. For example, though fewer than two-fifths of persons with nonfarm business incomes of less than \$1,000 listed farm losses, nearly four-fifths with nonfarm business incomes of \$25,000 or more reported losses.

A distribution of income by source suggests that nonfarm business income tended to be distributed less equally than wages and salaries, but more equally than dividends and interest (table 13). ^{15/} The effect of nonfarm businesses on income distribution is more difficult to estimate than that of wages, dividends, and interest. Gini ratios were computed separately for persons reporting nonfarm profits and losses. In these distributions, nonfarm business profits, when grouped by income class, were less equally distributed than income of all persons involved in farming (table 6). Thus, nonfarm business profits tended to decrease income equality slightly.

Nonfarm business losses were apparently more equally distributed than income (table 6). Thus, these losses seemed to offset other income and to fall more heavily on persons with low incomes (table 6). Of course, losses themselves shifted some persons to low income classes. The Gini ratio for nonfarm business losses was smaller than that for combined income, which suggests that income inequality was increased by nonfarm business losses.

Partnership income was reported less often than nonfarm proprietorship income but the distributions were similar. Listed by 3 percent of persons reporting farm earnings in 1966, partnership income averaged about a third larger than proprietorship income. However, partnership income and losses included with income of one of the partners only accounted for his share of the total; the other partner's share was excluded. Partnership losses were only slightly larger than those of nonfarm proprietors (tables 7 and 8).

A percentage distribution of persons with partnership income by amount reported was similar to that for persons with nonfarm proprietorship businesses. About one-fifth of those with partnership income reported losses from such interests (table 13). Partnership income was slightly less equally distributed than other nonfarm business income. A distribution of persons and income by amount of income suggested neither partnership income nor losses would greatly change the distribution of income for people with farm earnings (table 6). ^{16/}

Capital Transactions

Capital gains or losses were reported by about 1.1 million persons with farm earnings in 1966. Gains less losses increased from \$1.2 billion in 1963 to \$1.7 billion in 1966. About 8.6 percent of the returns with capital transactions listed losses; however, these totaled less than \$50 million.

^{15/} For regional data on nonfarm proprietorships, see app. table 3.

^{16/} For regional data on partnerships, see app. table 4.

More than half the people with farm income and capital gains listed gains of less than \$500. Persons reporting less than \$1,000 accounted for 70 percent of those who had gains (table 13) but only 14 percent of total gains.

Large capital gains--\$10,000 or more--accounted for 46 percent of total gains in 1966 but were received by only 2 percent of persons with farm income. Nearly 60 percent of all capital gains and about 80 percent of gains above \$10,000 were reported on returns that listed farm losses. Thus, large gains apparently originated in nonfarm activities.

Capital gains seemed to be less evenly distributed than wages and salaries, interest, and nonfarm proprietorship and partnership income. Inequality was especially great on returns showing farm losses.

Another way to look at the distribution of capital gains is in relation to income classes (table 6). Evidently, capital gains did not greatly change overall income distribution because they were distributed about the same as combined income. Capital losses, on the other hand, tended to increase income inequality. However, because such losses were small, this effect was small. 17/

Other Income

About two-thirds of all persons with farm income reported income from rents, royalties, taxable pensions, and annuities; ordinary gain from sale of depreciable property; and income from estates and trust funds and sale of property other than capital assets. Income from these and other miscellaneous sources totaled about \$1 billion in 1966; losses, about \$278 million. Other income less other losses appeared to be about the same as in 1963.

About one-fourth of people reporting other income listed losses from these other sources; and more than half reported income of less than \$500 (table 13). A distribution by amount of combined farm and off-farm income showed other income to be relatively less concentrated than dividends, nonfarm business income, and capital gains, but more concentrated than wages and salaries and interest (table 6). Apparently, the net effect of other income was to lessen income inequality. Other losses which were relatively small may have tended to increase inequality slightly. 18/

INCOME ASSOCIATED WITH AGE

Persons 65 years and older have more income problems than younger persons. Also, older people with income problems are especially unlikely to have the physical stamina, training, or skills required to improve their economic situations. 19/ Thus, assistance from the public sector may be needed.

In 1966, 477,000 persons 65 and older had some farm income. Their combined farm and off-farm income averaged nearly \$1,600 less than that reported by

17/ For regional data on capital gains, see app. table 5.

18/ For regional data on other income, see app. table 6.

19/ Taxpayers 65 and older show an age exemption on their tax returns. On joint returns, this may be either the husband or wife. Age exemptions cannot be claimed for dependents other than the spouse.

younger taxpayers. One-fifth of the younger persons reported less than \$2,500, compared with one-half of persons 65 and older (table 15). Thus, age was a factor in nearly one-third of the cases when income was less than \$2,500--though persons 65 and over accounted for only one-sixth of all persons with farm earnings.

Age-associated factors also contributed significantly to income inequality. In part, greater income inequality among older people reflects differences in lifetime success in improving farm earnings, advancing in nonfarm jobs, and accumulating income-producing assets. Some of the apparent inequality occurs because many of these older people are semiretired and thus have low current earnings. Others may have once had substantial incomes.

Though, as mentioned, older people are more likely than younger people to have income problems, age is more useful in explaining low incomes in some regions. For example, in the Corn Belt, about 40 percent of the persons reporting income less than \$2,500 were 65 and older. Thus, low incomes in that region may mainly reflect reduced earnings of older people. In the Delta region, however, only 18 percent of people with incomes less than \$2,500 were 65 and older. Although low incomes are characteristic of older people in the Delta, they are also common among persons under 65. These low incomes may frequently be explained by limited education and skills and a lack of non-farm opportunities.

In the Northeast and Pacific regions, average income scarcely differed between persons 65 and older and those younger than 65, primarily because a large number of older persons reported significant off-farm income. However, not all older people in these two regions received adequate incomes. The highly unequal incomes among older people in the Northeast may be due to the relatively small number reporting at high-income levels. Though these older persons had some farm earnings, most of their income probably came from nonfarm sources. Half the older people in the Northeast and nearly one-third in the Pacific region received incomes less than \$2,500. In sharp contrast, one-fifth of younger persons from the Northeast and one-tenth from the Pacific region reported such low incomes.

Income differences between older and younger persons were largest in the Lake States, Corn Belt, Mountain, and Northern Plains regions. There, older farm taxpayers may have often been active farmers or landlords who were once farm operators. In addition, fewer older people reported off-farm income than in the Northeast and Pacific regions.

Data from tax returns exclude many older low-income farmpeople, for various reasons. People with low incomes may not have to file returns. Additionally, persons 65 and older are allowed a double exemption. In the Delta region, for example, only about 11 percent of persons reporting income for tax purposes in 1966 were 65 and older. However, nearly 19 percent of Delta farm operators in the 1964 Census of Agriculture had reached that age (table 16).

In the Lake States, Corn Belt, Northern Plains, and Mountain regions, the percentage of farm income tax returns filed by older people exceeded the percentage of older farm operators in the 1964 Census of Agriculture. The difference is probably explained by the rather large number of farm landlords 65

Table 15.--Persons 65 and older reporting farm income: Distribution by amount of combined farm and off-farm income and by region, 1966 ^{1/}

Region	Number ^{2/}	Persons with combined income of--										Mean	:Gini ratio
		Less than \$2,500	\$2,500- \$4,999	\$4,999- \$9,999	\$9,999- \$24,999	\$24,999- \$49,000	\$49,000- \$25,000-	\$25,000- \$50,000	\$50,000 or more				
	Thousands	Percent										Dollars	
Northeast	33	50.6	24.0	12.9	7.4	2.6	2.5					9,130	0.749
Lake States	53	63.5	19.8	12.9	3.0	.4	.4					3,480	.519
Corn Belt	140	46.6	24.6	18.2	8.5	1.4	.7					5,310	.570
Northern Plains	48	43.5	28.1	20.1	6.8	1.2	.3					4,620	.495
Appalachian	63	67.4	12.8	13.6	4.2	1.1	.9					4,160	.625
Southeast	30	57.5	14.7	15.4	9.0	2.1	1.3					5,870	.650
Delta	15	55.2	23.7	9.2	7.9	3.1	.9					5,400	.643
Southern Plains	45	47.1	22.9	17.2	8.8	2.5	1.5					6,540	.652
Mountain	24	44.6	30.3	16.0	7.2	1.2	.7					5,070	.586
Pacific	26	31.9	18.4	25.7	17.1	4.5	2.4					10,350	.626
All	477	51.3	21.9	16.6	7.5	1.7	1.0					5,560	.621

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

^{2/} Excluding persons with losses from combined farm and off-farm sources.

Table 16.--Distribution of farm operators and persons with farm income aged 65 and older, by region, selected years

Region	Farm operators <u>1/</u>	Persons with farm income <u>2/</u>
Northeast-----:	18	17
Lake States-----:	14	16
Corn Belt-----:	17	20
Northern Plains-----:	14	17
Appalachian-----:	20	15
Southeast-----:	19	16
Delta States-----:	19	11
Southern Plains-----:	20	15
Mountain-----:	14	17
Pacific-----:	17	16
All-----:	17	17

1/ 1964 Census of Agriculture.

2/ Persons with age exemptions reporting farm income on Federal income tax returns in 1966. Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

and older filing farm tax returns from these regions. Typically, these regions have more farm tax returns than farms, a further indication of the number of landlords who report (4, p.5).

Low earnings of older people are often augmented by retirement income, social security benefits, and other nontaxable income. 20/ Too, many older people own their own homes and may have more limited needs than younger families with children. Nevertheless, in 1966, nearly a quarter-million older people reported less than \$2,500 in income from taxable farm and off-farm sources; the average was only \$1,220. These people might be a prime target in any public program designed to improve rural incomes.

IMPLICATIONS

Farming has long been recognized as having more than its share of low incomes. Income differences originally arose between farmers and nonfarmers because farmers were at a disadvantage in the marketplace. Along with their capacity to overproduce, farmers faced an inelastic demand in an economy otherwise characterized by some degree of imperfect competition. Inputs, including labor, that have not found profitable nonfarm uses continue in farm production, often adding to already burdensome surpluses of food and fiber.

Present programs have not effectively eliminated income problems for many of the people associated with farming. However, programs that benefit all those engaged in farming cannot be justified solely on the basis of helping low-income people. In our industrialized society where off-farm earnings are

20/Persons aged 62-64, the disabled, and widows aged 60 and older may also be entitled to social security benefits.

found in the most rural regions, and some people with farm income live in cities. Farm programs that attempt to benefit all "farmers" are likely to enrich some who already have substantial incomes from combined farm and off-farm sources.

Among nonfarm income sources, wages and salaries seem to hold considerable promise for further increases in income for many people on small farms. Greater availability of nonfarm jobs and mechanization of farms has allowed increased freedom to accept jobs that were available. Also, access to jobs was enhanced by improved highways and better automobiles. Finally, better educated workers and those with skills needed in today's economy were more likely to find employment.

Farm income policies that treat rural income problems partly through the nonfarm job market would allow for greater population dispersion and less concentration of rural residents into already crowded urban centers. Also, better off-farm alternatives should limit the level to which farm income might fall before the people involved shift to nonfarm jobs.

To a large extent, wage and salary work may have substituted for actual farm to nonfarm migration. Some low-income people currently benefiting from small wage earnings would probably welcome more regular nonfarm jobs. Where satisfactory off-farm jobs already exist, people have little incentive to move to urban centers, unless significant advances in well-being are expected.

Not all regions can expect to develop in the same way; some will remain essentially rural in character and largely farm oriented. These regions may need farm programs of the more traditional type. There is also need for continued off-farm mobility, especially for younger people. Money now spent on output-restricting farm programs in areas already moving toward an urbiculture might benefit the people more if spent in promoting further industrial growth. Of course, only a small proportion of the total farm program payments go to such areas.

Many older people have special income problems. This would probably be true even if better account is taken of transfer payments and other nontaxable income not identified in this report. Holding off-farm jobs can assure greater lifetime earnings and establish higher retirement and social security benefits for those who have not yet reached retirement age. However, separate programs from those for younger people may be needed to alleviate income problems of older people.

Appendix table 1.--Persons with farm income reporting dividends: Distribution by amount reported, and by region, 1966 ^{1/}

Region	Number	Persons with dividends of--											Gini ratio
		Less than \$250	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	\$10,000-\$24,999	\$25,000 or more	
	Thou.						Percent						
Northeast-----	36	45.0	10.8	10.6	7.1	5.7	2.4	5.3	2.5	2.1	4.5	4.0	0.901
Lake States-----	35	60.9	13.6	8.9	5.1	2.6	1.8	3.3	1.1	1.1	.8	.8	.882
Corn Belt-----	82	59.3	9.4	11.7	4.3	4.2	1.3	4.7	1.3	.8	2.1	.9	.886
Northern Plains-----	36	70.2	10.1	7.4	2.4	3.1	1.9	2.9	.8	.4	.5	.3	.817
Appalachian-----	30	51.4	14.1	8.6	6.7	1.8	2.8	6.9	2.1	1.0	2.6	2.0	.894
Southeast-----	21	50.9	11.9	10.5	4.8	4.7	2.5	5.7	2.7	1.8	2.3	2.2	.871
Delta-----	15	48.4	13.7	14.1	4.1	6.1	3.9	5.2	1.0	.3	1.7	1.5	.850
Southern Plains-----	32	57.5	7.8	11.2	4.8	2.1	2.8	4.4	2.9	1.1	3.4	2.0	.888
Mountain-----	16	55.3	8.8	18.1	3.2	1.2	1.0	4.1	2.9	.3	3.1	2.0	.884
Pacific-----	31	46.9	11.7	13.8	6.4	3.8	2.2	6.5	2.3	1.5	2.9	2.0	.873
All-----	334	55.9	10.9	11.0	4.9	3.6	2.1	4.8	1.8	1.1	2.3	1.6	.896

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.Appendix table 2.--Persons with farm income reporting interest: Distribution by amount reported and by region, 1966 ^{1/}

Region	Number	Persons with interest of--										Gini ratio
		Less than \$250	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	\$10,000 or more	
	Thou.											
Northeast-----	112	55.1	13.4	15.5	4.7	3.8	2.2	3.6	0.8	0.3	0.6	0.713
Lake States-----	172	59.2	15.7	10.6	5.2	3.5	1.7	2.9	.8	.3	.1	.683
Corn Belt-----	374	56.8	13.7	13.6	6.1	3.7	1.4	3.6	.7	.1	.3	.684
Northern Plains-----	130	57.4	17.0	11.6	4.9	3.1	2.4	2.4	.7	.3	.2	.687
Appalachian-----	156	59.3	18.2	11.5	5.0	1.9	1.7	1.6	.5	.1	.2	.668
Southeast-----	90	53.3	14.5	15.6	5.3	4.0	2.1	3.1	.9	.3	.9	.722
Delta-----	52	55.9	17.0	14.9	3.0	2.3	1.8	3.2	1.1	.6	.2	.699
Southern Plains-----	140	57.4	15.7	12.2	4.6	3.1	1.3	3.7	.9	.4	.7	.749
Mountain-----	77	55.1	14.9	12.3	5.0	3.0	2.5	5.5	1.0	.2	.5	.723
Pacific-----	118	49.4	11.5	15.7	8.7	2.9	1.8	5.2	2.7	.9	1.2	.746
All-----	1,421	56.4	15.0	13.1	5.5	3.2	1.8	3.4	.9	.3	.4	.710

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

Appendix table 3.--Persons with farm income reporting nonfarm proprietorship income: Distribution by amount reported and by region, 1966 ^{1/}

Region	Number	Persons with nonfarm proprietorship income of--														Gini ratio 2/	
		Loss	Less than \$250		\$250-\$499	\$500-\$999	\$1,000-\$1,499		\$1,500-\$1,999	\$2,000-\$2,499		\$2,500-\$4,999	\$5,000-\$7,499		\$7,500-\$24,999		\$25,000 or more
	Thou.																
Northeast	28	25.5	4.6	3.8	11.3	2.6	8.2	4.9	16.2	8.9	2.4	7.4	4.2	0.654			
Lake States	30	16.9	9.7	6.5	8.8	4.9	6.9	3.6	19.7	6.9	6.3	8.1	1.7	.602			
Corn Belt	79	12.8	6.8	7.0	8.7	10.6	5.7	7.6	18.7	6.4	4.1	8.8	2.8	.636			
Northern Plains	23	25.7	11.3	9.0	9.0	7.7	6.0	4.0	13.3	3.4	2.5	6.6	1.5	.671			
Appalachian	53	17.2	9.7	8.0	11.6	10.1	8.2	5.1	13.8	4.9	2.9	5.2	3.3	.683			
Southeast	26	25.1	4.3	2.0	15.3	4.1	5.5	3.5	16.0	4.9	5.6	9.1	4.6	.654			
Delta	21	24.1	6.2	7.6	16.6	7.9	5.0	4.0	13.9	1.5	2.7	7.0	3.5	.708			
Southern Plains	53	24.0	5.0	8.0	7.5	9.1	6.9	4.8	11.5	8.8	2.8	7.8	3.8	.663			
Mountain	19	20.2	12.8	5.7	9.8	8.5	3.3	6.3	14.0	8.4	2.3	5.7	3.0	.667			
Pacific	24	26.9	10.0	5.6	7.6	0.9	4.8	5.3	10.4	10.6	3.5	8.8	5.6	.667			
All	356	20.2	7.7	6.6	10.1	7.6	6.3	5.3	15.1	6.6	3.6	7.6	3.3	.663			

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

^{2/} Gini ratios computed for persons reporting nonfarm proprietorship profits.

Appendix table 4.--Persons with farm income reporting partnership income: Distribution by amount reported and by region, 1966 ^{1/}

Region	Number	Persons with partnership income of--													Gini ratio ^{2/}
		Loss	Less than \$250	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	\$10,000-\$24,999	\$25,000 or more		
		Percent													
Northeast	5	34.6	9.0	3.3	3.5	2.6	7.1	4.4	8.5	2.5	5.7	11.2	7.6	0.732	
Lake States	4	20.7	10.8	12.1	4.8	5.2	13.8	2.3	10.1	5.0	3.8	7.1	4.3	.740	
Corn Belt	23	16.8	8.1	8.0	9.6	6.4	5.4	4.0	11.9	9.6	4.3	11.3	4.6	.662	
Northern Plains	11	14.1	8.1	6.0	11.2	5.8	6.4	2.3	15.7	17.1	3.8	6.8	2.7	.600	
Appalachian	15	19.2	13.6	5.8	8.8	7.8	5.6	5.4	10.3	7.0	2.6	9.5	4.4	.703	
Southeast	6	34.1	11.8	5.1	7.9	1.6	.8	7.1	3.7	4.1	6.7	10.8	6.3	.676	
Delta	5	19.0	9.0	1.1	14.5	4.9	4.7	4.1	18.2	4.5	3.8	10.3	5.9	.667	
Southern Plains	17	29.0	8.6	5.8	7.0	5.1	5.7	2.7	11.1	6.3	1.4	12.2	5.1	.678	
Mountain	6	21.6	11.8	4.0	11.5	7.3	3.5	6.5	9.6	5.0	6.1	9.0	4.1	.687	
Pacific	11	24.3	12.1	3.0	8.9	5.1	2.8	4.1	11.1	6.1	4.1	12.1	6.3	.686	
All	103	22.7	10.1	5.7	8.8	5.5	5.2	4.2	11.1	7.4	3.8	10.5	5.0	.689	

^{1/} Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

^{2/} Gini ratios computed for persons reporting partnership profits.

Appendix table 5.--Persons with farm income reporting capital gains: Distribution by amount reported, and by region, 1966 1/

Region	Number	Persons with capital gains of--											Gini ratio
		Less than \$250	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	\$10,000-\$24,999	\$25,000 or more	
Northeast-----	Thou. 67	28.0	16.8	20.8	7.0	6.4	2.6	8.4	4.2	1.0	3.4	1.4	0.821
Lake States-----	174	29.4	22.6	26.0	10.2	3.8	2.7	4.1	.7	.2	.2	.1	.581
Corn Belt-----	293	34.1	17.8	21.6	10.7	5.2	2.6	5.0	1.1	.6	1.0	.3	.696
Northern Plains-----	145	36.9	21.1	18.1	9.5	4.0	1.9	5.7	1.7	.5	.5	.1	.670
Appalachian-----	73	43.6	15.8	13.7	9.0	4.6	2.1	6.3	1.2	1.5	1.4	.8	.818
Southeast-----	35	29.9	14.2	11.6	10.9	8.0	2.9	11.2	3.0	2.5	3.5	2.3	.814
Delta-----	30	37.7	19.5	16.0	7.1	1.8	2.3	8.8	1.2	1.7	2.8	1.1	.822
Southern Plains-----	92	38.7	17.5	12.7	7.1	3.5	3.0	9.9	2.4	1.8	2.3	1.1	.813
Mountain-----	59	28.4	21.9	19.2	7.2	4.9	3.7	7.3	3.0	1.7	2.1	.6	.764
Pacific-----	66	35.1	14.1	11.3	9.1	4.6	4.2	9.2	5.1	2.0	3.3	2.0	.812
All-----	1,034	34.1	18.7	19.2	9.4	4.6	2.7	6.4	1.9	1.0	1.4	.6	.768

1/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service. Capital losses were not tabulated by region.

Appendix table 6.--Persons with farm income reporting other income: Distribution by amount reported, and by region, 1966 1/

Region	Number	Persons with other income of --											Gini ratio 2/
		Loss	Less than \$250	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000-\$2,499	\$2,500-\$4,999	\$5,000-\$7,499	\$7,500-\$9,999	\$10,000 or more	
Northeast-----	Thou. 133	28.2	49.3	6.3	6.7	2.9	1.7	1.2	2.4	0.6	0.2	0.5	0.836
Lake States-----	228	25.6	53.9	7.9	6.6	2.4	.9	1.2	.9	.3	.2	.1	.773
Corn Belt-----	485	24.9	50.2	8.0	5.7	4.0	2.1	1.0	2.9	.7	.2	.3	.793
Northern Plains-----	190	27.4	45.6	8.8	7.3	4.4	1.8	.9	2.5	.7	.2	.4	.779
Appalachian-----	237	24.4	53.8	6.6	6.9	2.6	1.3	1.4	1.7	.8	.3	.2	.806
Southeast-----	118	32.2	43.8	5.8	5.8	3.2	2.5	2.1	2.1	1.4	.4	.7	.820
Delta-----	89	33.4	37.8	6.4	6.7	3.8	1.9	1.8	4.7	1.7	.5	1.3	.813
Southern Plains-----	237	29.4	36.9	7.4	8.6	4.8	2.6	2.3	3.8	1.6	.7	1.9	.820
Mountain-----	102	30.3	46.8	6.9	7.1	2.4	1.9	1.1	2.2	.5	.2	.6	.830
Pacific-----	128	33.2	39.2	7.1	5.9	3.1	2.5	2.7	3.7	1.5	.6	1.0	.817
All-----	1,947	27.6	47.1	7.4	6.7	3.5	1.9	1.4	2.6	.9	.3	.6	.820

1/ Based on special tabulations by U.S. Department of the Treasury, Internal Revenue Service.

2/ Does not include persons with losses from this source.

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WASHINGTON, D.C. 20250

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE, \$300

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